

STEP-BY-STEP INSTRUCTIONS FOR FILLING IN YOUR FORM G-45 (PERIODIC RETURN)

(The circled numbers in the sample below correspond to the steps in the instructions.)

FORM G-45
(REV. 2002)

STATE OF HAWAII — DEPARTMENT OF TAXATION
GENERAL EXCISE/USE TAX RETURN

DO NOT WRITE IN THIS AREA

10

NAME: Doe, John **1**

☒ **3** MONTH OF JANUARY, 2003 **2**
(Do not combine your income for more than one month, if filing monthly.)

☐ **QUARTER OF** _____, **G.E./USE ID. NO.** 1 0 0 0 0 0 0 0
(Do not combine your income for more than one quarter, if filing quarterly.)

☐ **SEMIANNUAL PERIOD OF** _____, _____
(Do not combine your income for more than one semiannual period, if filing semiannually.)

SCHEDULE A — ACTIVITIES UNDER CHAPTER 237, HRS — GENERAL EXCISE TAX LAW							
BUSINESS ACTIVITIES	BUS. ACT. CODE	VALUES, GROSS PROCEEDS OR GROSS INCOME a	EXEMPTIONS/DEDUCTIONS (EXPLAIN ON REVERSE SIDE) b	TAXABLE INCOME (column a minus column b) c	RATE d	TAXES e	
WHOLESALE	1	1,000 00	0 00	1,000 00	.005	5 00	1
MANUFACTURING	2				.005		2
PRODUCING	3				.005		3
SUGAR PROCESSING	4				.005		4
PINEAPPLE CANNING	5				.005		5
SERVICES RENDERED FOR (OR TO) AN INTERMEDIARY	6				.005		6
INSURANCE COMMISSIONS	7				.0015		7
RETAILING	8	9,000 00	25 00	8,975 00	.04	359 00	8
SERVICES INCL. PROFESSIONAL	9				.04		9
CONTRACTING	10				.04		10
THEATER AMUSEMENT AND BROADCASTING	11				.04		11
INTEREST	12				.04		12
COMMISSIONS	13				.04		13
TRANSIENT ACCOMMODATIONS RENTALS	14				.04		14
OTHER RENTALS	15				.04		15
ALL OTHERS	16				.04		16

SCHEDULE B — ACTIVITIES UNDER CHAPTER 238, HRS — USE TAX LAW							
IMPORTS FOR RESALE AT RETAIL	17	9,000 00	0 00	9,000 00	.005	45 00	17
IMPORTS FOR CONSUMPTION	18				.04		18
IF YOU DO NOT HAVE ANY GROSS INCOME AND THE RESULT IS NO TAX DUE, ENTER "0" IN EACH COLUMN OF YOUR BUSINESS ACTIVITY(IES) AND LINES 19 AND 22.				19. TOTAL TAXES DUE		409 00	19
FOR LATE FILING ONLY ...				20a. PENALTY			20a
				20b. INTEREST			20b
Attach your check or money order payable to "HAWAII STATE TAX COLLECTOR" in U.S. dollars drawn on any U.S. bank AND Form VP-1 to Form G-45. Write "GE", the filing period, and your G.E. ID. No. on your check or money order.				21. TOTAL PAYMENT PAY IN U.S. DOLLARS		409 00	21
GRAND TOTAL EXEMPTIONS/DEDUCTIONS FROM BACK OF FORM.				22.	25 00		22

I declare, under the penalties set forth in section 231-86, HRS, that this is a true and correct return, prepared in accordance with the provisions of the General Excise and Use Tax Laws and the rules issued thereunder.

IN THE CASE OF A CORPORATION OR PARTNERSHIP, THIS RETURN MUST BE SIGNED BY AN OFFICER, PARTNER OR MEMBER, OR DULY AUTHORIZED AGENT.

John Doe **21** owner 2/28/03
SIGNATURE TITLE DATE

Note: This form may be electronically filed (e-filed) with the Department of Taxation. For more information, go to www.ehawaii.gov.org/efile.

— MAILING ADDRESSES —

OAHU DISTRICT
P.O. BOX 1425
HONOLULU, HI 96806-1425

MAUI DISTRICT OFFICE
P.O. BOX 1427
WAILUKU, HI 96793-6427

HAWAII DISTRICT OFFICE
P.O. BOX 937
HILO, HI 96721-0937

KAUAI DISTRICT OFFICE
P.O. BOX 1687
LIHUE, HI 96766-5687

FORM G-45 **10**

Periodic general excise/use tax return (Form G-45) may be electronically filed (e-filed) with the Department of Taxation. For more information, go to www.ehawaii.gov.org/efile.

The Top of the Tax Return

Step 1 — Write your name here. Individuals, write your last name first.

Step 2 — If you have received notification of your one-time event identification number, enter your number in the area provided. If you have not been assigned a number, leave the area blank.

Step 3 — Place an “X” in the “Month of” box and indicate the month and year of your filing period.

Lines 1-16 — Schedule A (General Excise Tax)

Step 4 — Enter the gross income from your business activity or activities in column a on the appropriate business activity line(s). Line 1 (Wholesaling includes sales to licensed general excise persons for resale), Line 6 (Services Rendered for (or to) an Intermediary includes services ordered by another taxpayer in a service business who act as an intermediary between you and the customer. Also includes services rendered to a manufacturer in the actual manufacture of the finished or saleable product), Line 8 (Retailing includes all sales not qualified as wholesale sales (e.g. sales to unlicensed persons and to customers for their own use or consumption)), Line 9 (Services), Line 11 (Theater, amusement and broadcasting), Line 15 (Other rentals), and Line 16 (All others includes all gross income not included in the preceding).

If a promoter, a contractor, or other person withheld general excise or use tax and paid it to the Department of Taxation on your behalf, do not enter the amount paid or the income on which tax was withheld.

Step 5 — If you have allowable exemptions or deductions, enter the total in column b on the appropriate business activity line or lines. If you do not have any exemptions or deductions, enter zero (0) on the applicable line or lines.

For more information on allowable exemptions or deductions and how to claim them, see the “Changes You Should Note” page and “Schedule of General Excise Tax Exemptions and Deductions” included as part of this packet.

IMPORTANT: Most deductions allowed on net income tax returns (e.g., operating expenses or cost of goods sold) are NOT deductible on general excise tax returns. Explanations of allowable exemptions and deductions are included as part of this packet.

Step 6 — For each activity you engage in, subtract column b from column a and enter the result in column c, taxable income. If the result is zero, enter a zero (0).

Step 7 — For each activity you engage in, multiply the taxable income in column c by the appropriate tax rate. Enter the result in column d. The result is the general excise tax due for that activity. If the result is zero, enter a zero (0).

Step 8 — If you are claiming exemptions or deductions in column b, turn to the re-

verse side of the return. Write the line number of the activity for which the exemption or deduction is being claimed and the description of the exemption or deduction. If you write the Hawaii Revised Statutes (HRS) section number of your claimed exemptions or deductions (see schedule included as part of this packet), it will speed processing of your return and minimize the chances of us misunderstanding what you claimed.

Step 9 — Add the dollar amounts of the exemptions and deductions for Schedule A, activities taxable under the general excise tax law, and enter the sum on the subtotal line.

Lines 17-18 — Schedule B (Use Tax)

Step 10 — Enter the landed value of tangible personal property, services or contracting imported into Hawaii in column a on the appropriate line or lines. The landed value is the value an item or service has at the time it arrives in Hawaii. For property, it generally includes the invoice price plus shipping, insurance, handling, licenses, customs duty, and other related costs. Landed value does not include sales tax paid in another state.

Property or services are not subject to use tax if either general excise tax or use tax has been previously paid on the property or services.

Step 11 — If you have allowable exemptions or deductions, enter the total in column b on the appropriate line or lines. Explanations of allowable exemptions and deductions are included as part of this packet. If you do not have any exemptions or deductions, enter zero (0) on the applicable line or lines.

Step 12 — Subtract column b from column a, and enter the result in column c. This is the taxable value.

Step 13 — Multiply the taxable value in column c by the tax rate. Enter the result in column d. The result is the use tax due.

Step 14 — If you are claiming exemptions or deductions in column b of lines 17-18, turn to the reverse side of the return. Write the line number of the activity for which the exemption or deduction is being claimed and the description of the exemption or deduction. If you write the HRS section number of your claimed exemptions or deductions (see schedule included as part of this packet), it will speed processing of your return.

If you have paid taxes to another state on property, services or contracting that are subject to the Hawaii use tax, a credit may be taken to offset the Hawaii use tax. For

more information on claiming this credit, see the “Changes You Should Note” page in these instructions.

Step 15 — Add the dollar amounts of the exemptions and deductions for Schedule B, and enter the sum on the subtotal line.

Step 16 — Add the subtotals of Schedule A and B on the reverse side of the return, and enter the total on the grand total line and line 22 on the front of the return.

Finishing the Tax Return

Step 17 — On the front page of the return, add all of the amounts in column d, lines 1 through 18. Enter the sum on line 19. This is the total tax due.

CAUTION: LINE 19 MUST BE FILLED IN. If you do not owe either general excise tax or use tax, enter a zero (0) here.

Step 18 — You have one month to file your return. If you file your tax return after the due date, and if there is tax due on the return, then you must compute penalty and interest charges. After computing the amounts, enter the penalty on line 20a and the interest on line 20b.

If you need help computing the penalty and interest, please call the Taxpayer Services Branch for assistance at (808) 587-4242 or toll free at 1-800-222-3229; or leave these lines blank, and the Department will compute the charges for you and send you a bill.

Step 19 — Add the amounts on lines 19, 20a, and 20b. Write the total on line 21. Make your check for this amount payable to “Hawaii State Tax Collector.” Also complete Form VP-1, Tax Payment Voucher. Attach both your check or money order and Form VP-1 where indicated on the front of the form. Send the return to:

OAHU DISTRICT OFFICE
P. O. Box 1425
Honolulu, Hawaii 96806-1425

DO NOT SEND CASH.

IMPORTANT: Please write the filing period (e.g., “Jan. 2003,”) your one-time event I.D. number (if available), and “Form G-45” on the check so it will be properly credited if it is accidentally separated from your tax return.

Step 20 — Make sure you have entered the grand total exemptions/deductions from the reverse side of the return on line 22.

Step 21 — Sign your name and write your title and the date in the spaces provided.

Change You Should Note

Effective May 31, 2002, Act 98 (Act 98), Session Laws of Hawaii 2002, provides a general excise tax offset for taxes paid to another state. The general excise tax offset applies to any open tax years and for tax years for which an appeal is pending at the time of approval. Act 98 complements section 238-3(i), HRS, which allows a use tax offset for taxes paid to another state. A deduction method is used to implement the use tax and general excise tax offset.

Part I – Offset the use tax:

- Step 1– Enter the value of the imported property in Column A of line 17 or 18, as applicable, and determine the exact amount of use tax due on that property.
- Step 2– Compare the use tax due (Step 1) with the sales or use tax paid to another state on that property. Divide the LESSER of the two amounts by the applicable tax rate, and enter the result in Column B.
- Step 3– Subtract Column B from Column A, and enter the result in Column C.

- Step 4– Multiply Column C by the applicable tax rate, and enter the result in Column D.

Part II – Offset the general excise tax:

- Step 5– Enter the gross income from the sale of the imported property in Column A of the applicable line, and determine the exact amount of general excise tax due on that property.
- Step 6– Subtract the use tax due on that property (Step 1) from the sales or use tax paid to another state on that item.
- Step 7– Compare the general excise tax due (Step 5) with the remaining sales or use tax paid (Step 6). Divide the LESSER of the two amounts by 0.005 or 0.04, as applicable, and enter the result in Column B.
- Step 8– Subtract Column B from Column A, and enter the result in Column C.
- Step 9– Multiply Column C by the applicable tax rate, and enter the result in Column D.

EXAMPLE

Taxpayer A purchases widgets in State X on which \$125 of sales tax is paid, and imports the widgets into Hawaii for resale at retail. The landed value of the widgets is \$1,500, and they are sold at retail for \$2,700.

$$\text{Step 1-- } \$1,500 \times 0.005 = \$7.50$$

$$\text{Step 2-- } \$7.50 \div 0.005 = \$1,500$$

$$\text{Step 3-- } \$1,500 - \$1,500 = \$0$$

$$\text{Step 4-- } \$0 \times .005 = \$0.00$$

$$\text{Step 5-- } \$2,700 \times 0.04 = \$108$$

$$\text{Step 6-- } \$125 - 7.50 = \$117.50$$

$$\text{Step 7-- } \$108 \div 0.04 = \$2,700$$

$$\text{Step 8-- } \$2,700 - \$2,700 = \$0.00$$

$$\text{Step 9-- } \$0 \times .04 = \$0$$

See also "Major Tax Measures Passed by the Legislature – as of July 11, 2002" page.

SCHEDULE OF GENERAL EXCISE TAX EXEMPTIONS AND DEDUCTIONS

(NOTE: ALL SECTION REFERENCES ARE TO THE HAWAII REVISED STATUTES)

Unless the following instructions tell you not to report the exempt or deducted amounts, you must explain on the reverse side of the return the exemptions and deductions taken under column b preceded by statement of line number and amount claimed. For circumstances under which an exemption or a deduction is permitted or allowed, refer to the following sections:

Affordable Housing: Gross income received by a qualified person or firm for the planning, design, financing, construction, sale, rental, or lease of a housing project certified by a qualified state agency or a county is exempt. For more information, get Form G-37 or contact the Housing and Community Development Corporation of Hawaii. Report and explain these amounts. (Section 46-15.1 or 206G-116.)

Air Pollution Control Facilities: Sales of certain new facilities, and of tangible personal property used in their construction, use, or maintenance, are exempt. These facilities must be certified by the Department of Health at least once every five years. Report and explain these amounts. (Section 237-27.5.)

Aircraft Leasing: Effective July 1, 2001, amounts received as rent for the rental or leasing of aircraft or aircraft engines that is used by the lessee for interstate air transportation of passengers and goods are exempt. (Section 237-24.3(12))

Aircraft Service and Maintenance Facility: Amounts received from the servicing and maintenance of certain types of aircraft, or from the construction of a qualified aircraft service and maintenance facility in the State are exempt. Report and explain these amounts. (Section 237-24.9.)

Alcohol Fuels: Retail sales of alcohol fuel, which includes gasohol that is at least 10% alcohol by volume, are exempt. Report and explain these amounts. (Section 237-27.1.)

Alimony: Alimony and other similar payments and settlements are exempt. Do not report these amounts. (Section 237-24(7).)

Bad Debts: For accrual basis taxpayers, accounts that are actually charged off as worthless for income tax purposes may be deducted in column b. No deduction may be taken for a bad debt reserve. If accounts written off are later collected, the collection is included in column a for the period in which it was received. (Section 237-3(b).)

Call Centers: Amounts received by a telecommunications common carrier from a person operating a call center are exempt. The gross income received by a call center for customer services and support is also exempt. Report and explain these amounts. (Section 237-29.8.)

Casual Sales: Proceeds from a casual sale are not taxed. A casual sale means an occasional, isolated, irregular, infrequent, or incidental sale or transaction involving tangible personal property that is not ordinarily sold in the usual course of a trade or business. Sales of inventory, or sales that are carried out on a systematic basis, such as when a rental car company sells its rental cars in order to make way for new ones to rent, do not qualify as casual sales. For details, see section 18-237-1, Hawaii Administrative Rules. Do not report these amounts. (Section 237-2.)

Common Paymaster Exception: If employees work for more than one related corporation, one of the corporations may pay the employees on behalf of all employers. If so, the intercompany transfers of funds to the common paymaster are exempt from tax and need not be reported. See section 237-23.5(b). For hotels whose employees are paid by hotel operators, see section 237-24.7(1). For orchards whose employees are paid by orchard operators, see section 237-24.7(4).

Contracting Activity in an Enterprise Zone: Gross proceeds received by a contractor for construction within an enterprise zone performed for a qualified business within an enterprise zone are exempt. The designation of enterprise zones and the certification of qualified businesses are administered by the Department of Business, Economic Development, and Tourism. (Section 209E-11)

Damages for Personal Injuries and Property Damage: Compensatory damages for personal injuries or defamation, or compensatory damages for damage to property, are exempt. Do not report these amounts. (Section 237-24(5).) Punitive damages, and any damages for breach of contract, are taxable if the damages are connected to business in which you are or were engaged.

Diplomats and Consular Officials, Sales to: Amounts received from foreign diplomats and consular officials who are holding cards issued by the U.S. Department of State granting them an exemption from state taxes are exempt. The tax exemption, however, is not applicable to taxes imposed on telecommunication services, other utilities, or gasoline purchases. Report and explain these amounts. For more information, see Department of Taxation Announcement No. 2000-07. Report and explain these amounts. (Section 237-24.3(11).)

Disability Provisions: There is an exemption for the first \$2,000 of gross income earned by any blind, deaf, or totally disabled person. (Section 237-24(13).) Use Form G-65, Disability Deduction Worksheet, to compute the allowable deduction to effect the 0.5% general excise tax rate imposed on the remaining gross income. Contact your district tax office for Form G-65.

Discounts and Returned Merchandise: Cash or other discounts on the price of articles sold are considered price adjustments and should be considered in figuring the amount to report in column a. Cash or store credit that is given for returned merchandise is deductible and should be entered in column b of the same line on which the merchandise sales were reported. (Section 237-3(b).)

Dividends and Distributions: Dividends and other distributions of income or profit from corporations, partnerships, and trusts are not taxable. Do not report these amounts. (Section 237-3(b).) The exemption does not apply if the distribution is a payment due to transaction of business with the shareholder, partner, or beneficiary.

Drugs and Prosthetic Devices: Sales to individuals by a hospital, infirmary, medical clinic, health care facility, pharmacy, or practitioner licensed to administer drugs or prosthetic devices are exempt. Report and explain these amounts. Prosthetic devices do not include such items as glasses, hearing aids, or dentures. For more in-

formation, see Tax Information Release No. 86-4. (Section 237-24.3(7).)

Employee Benefit Plans: Amounts received by an employee benefit plan as contributions, dividends, and interest are exempt. Amounts received by a nonprofit organization or office as payments for costs and expenses incurred for the administration of an employee benefit plan are also exempt. Do not report these amounts. (Section 237-24.3(5).)

Enterprise Zones: There are tax incentives for employers doing business in properly designated enterprise zones. Designation of zones, and certification of employers and businesses in those zones, are administered by the Department of Business, Economic Development, and Tourism. (Section 209E-11.)

Exported Services: The value or gross proceeds arising from contracting or services performed in Hawaii, for a customer located outside of the State are exempt provided the customer furnishes a Form G-61 to the vendor certifying that the contracting or service purchased is for resale, consumption, or use outside of the State. Report and explain these amounts. (Section 237-29.53.)

Federal Cost-Plus Contractors: If you are a federal cost-plus contractor, you may elect to deduct any amounts that you were reimbursed under the contract for materials, plant, or equipment. To claim the deduction, you must certify that you are taxable with respect to the gross proceeds of the sale, and that you elect to have the tax on the gross income computed the same as upon a sale to the state government. Please attach the certification on a separate sheet. (Section 237-13(3)(C).)

Federally Preempted Amounts: Gross income is not taxed if the Constitution and laws of the United States prohibit the State of Hawaii from taxing it. If you are claiming this exemption, you must enter the amount claimed to be exempt in column b, and on the back of the return. Your explanation of this exemption must include a description of the constitutional provision or federal statute which you claim entitles you to the exemption. If possible, please include a reference to the United States Code (U.S.C.) to identify any federal law. (Section 237-22.)

If your business earns interest from buying U.S. Treasury obligations or similar instruments, check Tax Information Release No. 84-1 for a list of obligations for which interest is exempt. If the kind of bond or obligation that you have is listed as exempt, please identify the type of obligation that it is, and refer to "TIR No. 84-1" in your explanation of the exemption.

Food Stamps: Amounts received for purchases made with USDA food coupons or vouchers under the federal food stamp program, or the Special Supplemental Food Program for Women, Infants and Children, are exempt. Report and explain these amounts. (Section 237-24.3(6).)

Foreign Trade Zone Sales: Sales of products which are admitted into a foreign trade zone and made directly to any common carrier in interstate or foreign commerce for consumption out-of-state are exempt, provided that the sale takes place entirely within the zone. Report and explain these amounts. (Section 212-8.)

Foster Parents: Foster parents are not taxable on amounts they receive from the State or elee-

mosynary child-placing organizations for their care of children in foster homes. Do not report these amounts. (Section 237-24(15).)

Geothermal Power: Amounts received from selling geothermal power are exempt. Do not report these amounts. (Section 182-16.)

Gifts and Bequests: Any property acquired by gift, bequest, or devise is exempt. Do not report these amounts. (Section 237-24(2).)

Hotel Operator: Amounts received by the operator of a hotel from the owner of the hotel specifically to cover the costs of employee wages, salaries, payroll taxes, insurance premiums and benefits (including retirement, vacation, sick pay, and health benefits) are exempt. Report and explain these amounts. (Section 237-24.7(1).)

Insurance Proceeds: Amounts received under life insurance contracts because of the death of the insured (section 237-24(1)), amounts received under life insurance, endowment, or annuity contracts paid either during the term of the contract or at maturity (section 237-24(2)), or amounts received under an accident, health, or worker's compensation policy because of personal injuries, death, or sickness (section 237-24(3)), are all exempt; do not report these amounts.

If a person receives amounts under fire or accident policies to repair or replace damaged property, the amounts could qualify as money received because of casual sales (discussed earlier). Amounts paid under business interruption insurance contracts to replace lost income, or amounts paid under any insurance contracts to repair or replace inventory property, including crop losses, are considered taxable. Report all of these amounts on line 16, even if the insurance proceeds replace inventory property that otherwise would have been sold at wholesale. For more information, see Tax Information Release No. 92-7. If the damage or loss of inventory property took place in an area declared a natural disaster area, an exemption should be claimed (described below under "Insurance Proceeds Received Because of a Natural Disaster").

Insurance Proceeds Received Because of a Natural Disaster: If you receive amounts under property and casualty insurance policies for damage or loss of inventory used in a trade or business located within an area declared a natural disaster area by the Governor, this exemption applies. Report and explain these amounts. (Section 237-24.7(6).)

Intercompany Charges: Charges for legal, accounting, managerial, and administrative services (including related overhead costs) furnished by one related entity to another, or interest on loans or advances to related entities, are not taxable. Effective July 1, 2001, the amount received, charged, or attributable to services using computer software and hardware, information technology services, and database management that is furnished by one related entity to another related entity is exempt. Related entities are generally those related through 80% common ownership and at least 80% of the total voting power; see Section 237-23.5(a), for more information. These amounts must be reported and explained. (Section 237-23.5(a).)

Labor Organizations: A labor organization that is exempt from federal income tax under Section 501(c)(5) of the Internal Revenue Code is not taxable on rents for real property leased to (A) another labor organization, or (B) a trust providing membership service programs such as a pension plan, a common fund for medical or hospital

care, or apprenticeship and training. (Section 237-24.3(10).)

Leases and Subleases of Real Property: Effective October 1, 1998, a deduction is allowed a taxpayer who leases real property from a lessor under a written lease, and subsequently subleases that same real property to a sublessee under a written lease. The deduction is computed by multiplying the gross proceeds paid by the taxpayer to the lessor by a rate to be phased in over a 7-year period as follows: 1998 - 0.125; 1999 - 0.25; 2000 - 0.375; 2001 - 0.50; 2002 - 0.625; 2003 - .75; and 2004 and thereafter - 0.875. The taxpayer calculates the sublease deduction using Form G-72. These amounts must be reported and explained. (Section 237-16.5.)

Maintenance Fees: Maintenance fee payments by condominium owners to an association of apartment owners (AOAO) in reimbursement of sums paid for common expenses are exempt income for the AOAO. The same exemption applies when owners pay these fees to nonprofit homeowners' or community associations (Section 237-24.3(3)), or to qualifying cooperative housing corporations. (Section 237-24(16).) Do not report these amounts.

Mass Transit: Income of the operator of a mass transit system (of motorized buses) is exempt, if a political subdivision owns the property and the facilities of the county transportation system (including buses, real estate, parking garages, fuel pumps, etc.). Do not report these amounts. (Section 237-24.7(2).)

Merchants' Association Dues: Amounts received from the membership of an unincorporated merchants' association as dues for advertising or promotion are exempt, as long as the advertising and promotion are for the benefit of the membership as a whole and not for an individual member or subgroup of members. Do not report these amounts. (Section 237-24.3(9).)

Non-profit Organizations: Amounts received by certain non-profit fraternal, religious, charitable, scientific, educational, community or social welfare groups and hospitals, infirmaries and sanitaria organizations may be exempt. Do not report these amounts. (Section 237-23(a).) However, **ALL** fundraising activities of these organizations are taxable and must be reported. See Tax Information Release Nos. 89-6, 89-13, 91-2, and 91-4, and Tax Facts No. 98-3 for more information.

Orchard Operator: Amounts received by the operator of orchard properties from the owner of the orchard property specifically to cover the costs of employee wages, salaries, payroll taxes, insurance premiums and benefits (including retirement, vacation, sick pay, and health benefits) are exempt. Report and explain these amounts. (Section 237-24.7(4).)

Out of State Sales: The value or gross proceeds received by a manufacturer, producer, or seller of tangible personal property shipped to a point outside of the State where it is resold or otherwise consumed or used outside the State are exempt. Report and explain these amounts. For more information, see Tax Information Release No. 98-5. (Section 237-29.5(1).)

Petroleum Refining: Petroleum products refined in Hawaii that will be further refined by another taxpayer are exempt. Report and explain these amounts. (Section 237-27.)

Public Internet Data Center: Effective July 1, 2001, the gross income or gross proceeds received by a public Internet data center is exempt. The term "public Internet data center" means a facility available for compensated use by the pub-

lic that is designed to house data servers, operate on a 24-hour, 7-days a week basis, have redundant systems for electricity, air conditioning, fire suppression, and security, and provide bandwidth, co-location, data back-up, complex web hosting, and aggregation for application service providers. (Section 237-29.65.)

Real Estate Sales: Gross proceeds from the sale of land in fee simple are generally exempt and do not have to be reported. If leasehold land is sold, especially by the lessor, part of the proceeds from the sale may be considered rent and would need to be reported on line 15. For details, see General Excise Tax Memorandum No. 3 and General Excise Tax Memorandum No. 3A. Land in fee simple does not include furniture, fixtures, and equipment. If these items are being sold, see "Casual Sales" above. (Section 237-3(b).)

Contractors, developers, and dealers in real estate must report the gross sale proceeds from their projects in column a, and include in column b (and explain on the back of the return) the amount attributable to the sale of land in fee simple.

Reimbursements of Payroll Costs: Amounts received by a management company from related entities, engaged in the business of selling interstate or foreign telecommunication services, as reimbursements of payroll costs incurred in managing or operating the related entities' employees are exempt. Related entities are generally those related through 80% common ownership and at least 80% of the total voting power. These amounts must be reported and explained. (Section 237-24.7(9).)

Sale of Net Operating Losses by a Qualified High Technology Business: Effective July 1, 2001, the sale of a net operating loss by a qualified high technology business defined in section 235-7.3, HRS, is exempt. Report and explain this amount. (Section 237-29.75.)

Sales of Fresh Foods, Liquor, and Tobacco to Common Carriers: Sales of liquor, certain tobacco, and fresh food products to transportation companies for out-of-state use (or use on vessels) are exempt. Report and explain these amounts. (Section 237-24.3(2).)

Sales to the Federal Government and Credit Unions: Sales of tangible property to the federal government and state and federal credit unions are exempt. This exemption does not apply to federal cost-plus contractors or service providers (even if the service provider separately bills for the item of tangible personal property). (Section 237-25(a).)

Scientific Contracts: Gross proceeds from certain scientific contracts with the federal government are exempt. Report and explain these amounts. For more information, see Tax Information Release No. 35-71. (Section 237-26.)

Senior Citizens' Fair: Proceeds of an annual senior citizens' fair, held by a county commission on aging or appropriate county agencies on aging, are exempt. Do not report these amounts. (Section 349-10.)

Services Related to Ships and Aircraft: Amounts received from the loading or unloading of ships or aircraft; tugboat services including pilotage fees and towage of ships, barges, or vessels in and out of harbors or from one pier to another; and the transportation of pilots or governmental officials to ships, barges or vessels offshore; rigging gear; checking freight and similar services; standby charges; and use of moorings and running mooring lines are exempt. Report

and explain these amounts. (Section 237-24.3(4).)

Shipbuilding and Ship Repairs: Gross proceeds arising from shipbuilding and ship repairs rendered to surface vessels federally owned or engaged in interstate or international trade are exempt. Report and explain these amounts. (Section 237-28.1.)

Shipping and Handling of Agricultural Commodities: Amounts received for loading, unloading and shipping of agricultural commodities between islands in the State from a producer or produce dealer are exempt. These amounts must be reported and explained. (Section 237-24.3(1).)

Small Business Innovation Research Grants: Amounts received as grants awarded by the High Technology Development Corporation under section 206M-15, HRS, that supplement federal small business innovation research phase I awards or contracts are exempt. Report and explain these amounts. (Section 237-24.7(10).)

Stock Exchange Transactions: Certain amounts received by a domestic or foreign stock exchange, and certain amounts received by exchange members by reason of executing a securities or product transaction on an exchange, are exempt. The exemption does not apply to commission or other income received by brokers or dealers from their customers. Report and explain these amounts. (Section 237-24.5.)

Stocks, Bonds, and Commodity Futures: Gross proceeds from the sale of securities, commodity futures, and bonds are exempt and do not have to be reported. (Section 237-3(b).) If you are selling bonds with accrued but unpaid interest, the interest is considered income that is received when the bond is sold. The interest does not qualify for this exclusion and may need to be reported on line 12. For example, if you purchased an out-of-state municipal bond at a discounted price and sell it for an appreciated price, the difference is considered accrued, but unpaid,

interest and that portion would be taxable and reported on line 12. **Please note:** Federal bonds' accrued interest are exempted. See "Federally Preempted Amounts" discussed earlier.

Subcontract Deduction: A prime contractor (or a developer) may be eligible for a deduction in the amount of payments made to a subcontractor or a specialty contractor. To claim the deduction, the contractor must list the subcontractor and the subcontractor's general excise tax license number on the back of the general excise tax return. Report and explain these amounts. For more information, contact your district tax office for instructions. (Section 237-13(3)(B).)

Sugar Cane Payments to Independent Producers: Certain payments to independent sugar cane producers are exempt. Report and explain these amounts. (Section 237-24(14).)

Taxes Passed On: Amounts received to pay the following taxes are exempt. Each amount should be reported and explained.

- Fuel taxes collected by distributors. (Section 237-24(8).)
- Hawaii liquor taxes collected by dealers. (Section 237-24(9).)
- Hawaii cigarette and tobacco taxes paid by wholesalers. (Section 237-24(10).)
- Federal excise taxes imposed on articles sold at retail and collected from purchasers. (Section 237-24(11).)
- Federal taxes imposed on sugar manufactured in Hawaii. (Section 237-24(12).)
- Transient accommodations taxes visibly passed on. (Section 237-24.3(8).)
- Rental motor vehicle and tour vehicle surcharge taxes visibly passed on. (Section 237-24.7(3).)

Trade-Ins: For trade-ins, a merchant reduces the price of the new article by the amount of the trade-in allowance. The trade-in allowance is considered a price adjustment and is subtracted from the new article's sales price and the net amount is reported in column a. Any later sale of the traded-in article is reportable at the time of that sale. (Section 237-3(b).)

Wages: Amounts received as salaries or wages for services rendered by an employee to an employer are exempt. If your employer is withholding payroll taxes on these wages, you do not have to report them. If you are being paid as an independent contractor, or if payroll taxes are not being withheld, these amounts are taxable. (Section 237-24(6).)

Wholesale Sales to Licensed Wholesalers: Amounts received from the sales of tangible personal property imported into the State by a licensed taxpayer to another licensed taxpayer for further resale at wholesale are exempt. Report and explain these amounts. (Section 237-29.55.)

Wholesale Transactions: A deduction is allowed for qualified property-to-service, service-to-service, service-to-property, service-to-contracting, service-to-transient accommodations rental, amusement-to-service, amusement-to-tangible personal property, amusement-to-amusement transactions. The deduction is computed by multiplying the qualified gross proceeds received from these transactions by a rate to be phased in over a 7-year period as follows: 2000 - 0.125; 2001 - 0.250; 2002 - 0.375; 2003 - 0.500; 2004 - 0.625; 2005 - 0.750, until the "phase-in" of the preferred tax rate of 0.5% is reached January 1, 2006. The taxpayer calculates the phased-in deduction using Form G-81. These amounts must be reported and explained. (Sections 237-4(a)(8)(B), 237-4(a)(10), 237-4(a)(13), and 237-13.3.)

DIVISION OF GROSS INCOME AMONG TAXPAYERS

In general, as mentioned above, the general excise tax is imposed on gross income and no deductions are allowed for costs of producing that income. In the following special situations, however, the law recognizes the division of gross receipts among the taxpayers responsible for those receipts. Taxpayers in these situations report their respective shares of the gross income received.

Coin Operated Devices: Gross receipts are divided between the owner (or operator) of the device and the owner (or operator) of the premises on which the machine is located. (Section 237-18(a).)

Insurance Agents and Realtors: Gross commissions are divided among licensed non-em-

ployee insurance agents, or among licensed non-employee realtors. (Section 237-18(e).) Generally, commission sellers pay tax on commissions earned, and the principal pays tax on gross sales, not the amount net of commissions.

Motor Carriers: Effective October 1, 2001, where the transportation of passengers or property is furnished through arrangements between motor carriers, the gross income received for the transportation services is divided between the motor carriers. (Section 237-18(h).)

Producers and Promoters: When a person furnishing or producing an event or spectacle (such as a film distributor) and a promoter (such as a theater owner) stage an event, the promoter pays the tax and withholds the producer's tax, and

then is not taxed on the producer's share of the income. If the producer is a tax exempt entity, such as a properly registered nonprofit organization, then the promoter is not taxed on the producer's share of the income and the promoter does not have to withhold tax. (Section 237-18(b).)

Tour Packagers: Gross revenues can be divided between a tour packager or travel agent, and a provider of tourism related services. (Section 237-18(f).) In addition, gross revenues can be divided between a tour packager and a provider of transient accommodations at noncommissioned negotiated contract rates. (Section 237-18(g).) For more information, see Tax Information Release No. 91-8 and Attorney General Opinion 65-6.

SCHEDULE OF USE TAX EXEMPTIONS AND DEDUCTIONS

(NOTE: ALL SECTION REFERENCES ARE TO THE HAWAII REVISED STATUTES)

Unless the following instructions tell you not to report the exempt or deducted amounts, you must explain on the reverse side of the return the exemptions and deductions taken under column b preceded by statement of line number and amount claimed.

For circumstances under which an exemption or a deduction is permitted or allowed, refer to the following sections:

Air Pollution Control Facilities: An air pollution control facility itself, and any tangible personal property furnished in conjunction with the construction, reconstruction, erection, operation, use, or maintenance of an air pollution control facility is exempt. These facilities must be certified by the Department of Health at least once every five years. Report and explain these amounts. (*Section 238-3(k)*.)

Aircraft Service and Maintenance Facility: Materials, parts, or tools imported or purchased by a person with a general excise tax license and which are used for certain types of aircraft service and maintenance, or for the construction of a qualified aircraft service and maintenance facility, are exempt. (*Section 238-1*.)

Casual Purchases: A sale of tangible personal property by someone not in the business of selling the property is called a casual sale. (See "Casual Sales," above.) Because gross income derived from a casual sale is excluded from gross income subject to the general excise tax, the landed value of tangible personal property acquired in a casual sale also is not subject to the use tax. For example, if you purchase a used car from an individual selling his or her personal car and import that car into Hawaii, report the landed value of the car but claim this exemption. (*Section 238-1*.)

Contracting: The use of imported contracting by a building industry contractor who has a general excise tax license, is engaged in business as a contractor, and otherwise would be subject to the use tax on the imported contracting is exempt. Report and explain these amounts. See Tax Information Release No. 2001-2 for more information. (*Section 238-1*)

Diplomats and Consular Officials: The use of property, services, or contracting imported by foreign diplomats and consular officials holding cards issued by the U.S. Department of State granting them an exemption from state taxes are exempt. The tax exemption, however, is not applicable to taxes imposed on telecommunication services, other utilities, or gasoline purchases. Report and explain these amounts. For more information, see Department of Taxation Announcement No. 2000-07. (*Section 238-1*.)

Director of Taxation's Authority to Exempt, Exclude or Apportion the Use Tax: Imports of property, services, or contracting to the extent that the general excise tax would have applied to a similarly-situated taxpayer engaged in a local transaction. The Director of Taxation (Director) has the authority to:

- (1) Exempt or exclude from the use tax, property, services, or contracting, or the use of property, services, or contracting exempted from the general excise tax; or
- (2) Apportion the gross value of services or contracting sold to customers within the State by persons engaged in business both within and without the State to determine the value of that portion of the services or contracting that is subject to the general excise tax for the purposes of section 237-21, HRS.

The Director will use the authority to exempt, exclude, or apportion the value of imported property, services, or contracting when an exemption, exclusion, or apportionment of gross receipts would be allowed under the General Excise Tax Law in the case of a similar local transaction. See Tax Information Release No. 2001-2 for more information. (*Section 238-3(a)*)

Drugs and Prosthetic Devices for Personal Use: If you are an individual who bought drugs or prosthetic devices from a hospital, infirmary, medical clinic, health care facility, pharmacy, or a practitioner licensed to administer the drug to an individual, the landed value of the drugs or prosthetic devices is exempt from use tax. Do not report these amounts. (*Section 238-1*.)

Enterprise Zones: Purchases by a qualified business in an enterprise zone are exempt. The designation of enterprise zones and the certification of qualified businesses are administered by the Department of Business, Economic Development, and Tourism. (*Section 209E-11*)

Liquor or Tobacco: Liquor or tobacco products imported and then sold in interstate commerce for sale out of state, or sold to a common carrier for consumption on a vessel or airplane, are exempt. Report and explain these amounts. (*Section 238-3(g)*.)

Producers: Certain property used by licensed producers (defined in the instructions for line 3, Producing) is either taxed at a 1/2% rate or is exempt, depending on whether the imported property is going to be resold at retail. For example, if a farmer sells eggs to grocery stores as well as to neighbors and friends, then the chicken feed the farmer imports is taxed. That portion of the feed used to feed chickens whose eggs the farmer consumes is imported for consumption, and is reported on line 18. The portion attributable to retail sales is imported for resale, and is reported on line 17. The remainder is imported for wholesale, and is exempt; include those amounts on line 17, columns a and b, and explain this on the back of the return. (*Section 238-4*.) For more information, see Administrative Rules Section 18-238-4.

Scientific Use Property: Property which is to be affixed to, or which is to become a physical, integral part of a scientific facility, or which is to be entirely consumed during the performance of a service required by a scientific contract with the United States Government, is exempt. Report and explain these amounts. For more information, see Tax Information Release No. 35-71. (*Section 238-3(j)*.)

Services or Contracting to Foreign Customers: The use of services or contracting imported for resale to a foreign customer who will resell, consume or use the service or contracting outside of the State is exempt. Report and explain these amounts. (*Section 238-1*.)